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## Buying brands at both regular price and on promotion over time

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## ABSTRACT

We analyse the purchasing of brands at both regular and promotional price over time. The goal is to better understand the extent of consumer deal-proneness. Our analysis shows most consumers buy brands on promotion at least some of the time, and the tendency to buy on promotion relates mostly to how much promotion is available in a category, suggesting little innate deal-proneness. The extent of promotion can be so high that as many as half of all brand buyers buy the brand solely when it is on promotion. However, this amount of on-deal buying is only very slightly higher than would be expected given the amount of promotion available. We find few buyers buy *only* on promotion. Promotion buyers of a particular brand also buy *other* brands on and off promotion more or less in line with the market share those other brands have at regular and promotional price. The three main implications are: (1) brand loyalty is still an important aspect of purchase, (2) a brand's normal-price buyers are a major source of its volume from price promotions, and (3) there is only a small effect of deal-proneness on promotion buying over and above that of promotion prevalence in a category.

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## CHINESE ABSTRACT

我们分析了在很长一段时间内，消费者购买常规和促销价格品牌商品的情况。目标是更好地了解消费者的促销倾向程度。我们的分析显示，大多数消费者至少在某些时候购买促销的品牌，并且购买促销品的倾向主要与某个类别的商品中提供了多少促销相关，表明没有什么天然的促销倾向。促销的作用如此之大，以至于所有品牌的消费者中，有一半是仅在该品牌做促销时才会购买的。然而，考虑到可用的促销数量，这种捡便宜式购买的数量仅比预期高出一点点。我们发现，只有极少数消费者会仅仅在促销时进行购物。某个品牌的促销买家也会或多或少购买其他品牌，随着其他品牌所占的市场份额，以常规价格和促销价格购买。三个主要结论是：（1）品牌忠诚度仍然是购买的一个重要方面。（2）品牌的正常价格买家是价格促销购买力的主要来源。（3）在同一类别中，消费者的促销倾向比起促销推广度，仅有微小的效果。

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## 1. Introduction

Price promotions<sup>1</sup> are a very expensive activity for consumer packaged goods marketers. Between 50% to 60% of CPG firms' marketing budgets is reportedly spent on price promotions (Bolton et al., 2010; Nielsen, 2009). Marketers, finance directors, as well as academics worry that costly price promotions have no positive impact on the brand long-term (Jones, 1990; Nijs et al., 2001).

Extensive literature on the topic generally agrees that price promotion produces a short-term spike in sales that then return to normal when the promotion finishes (e.g. Dawes, 2004; Drechsler et al., 2017; Totten and Block, 1994). Furthermore, some studies have

suggested a possibility that price promotions have undue appeal to only a portion of buyers – a promotion-buying or deal-prone buyer segment (Lichtenstein et al., 1995; Webster, 1965). A deal-prone buyer is defined as having a high tendency to buy brands on promotion, over and above the extent of price promotion in the category (Webster, 1965). Deal-proneness also implies a tendency to switch between brands to take advantage of deals (Dodson et al., 1978).

Aside from marketer's concern about expense and lack of positive long-term impact, there is also worry that price promotions may train consumers to become deal prone, moving their loyalty from brands to the deal itself (e.g. Mela et al., 1997). That concern provides the central motivation for this research. The study aims to understand how the overall prevalence of deals or price promotions in a category is related to how many households buy brands *only* on promotion/deal, *only* at normal price, or *both* over a one-year time period. The findings will also help to clarify the influence of brand loyalty in promotion-intense categories.

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E-mail address: [John.Dawes@marketingscience.info](mailto:John.Dawes@marketingscience.info) (J. Dawes).<sup>1</sup> We use the terms 'price promotion' and 'deal' interchangeably, meaning a temporary offer involving a lower price or extra value to consumers.

## 2. Background and literature review

The concept of the deal-prone buyer has a long history. Deal-proneness has been generally investigated as a consumer trait that is linked to demographics, resource constraints (e.g. ability to travel), and category usage rate (Blattberg et al., 1978). Other studies have sought to extend the list of traits to psychographic and shopping-related variables to characterize more and less deal-prone consumer segments (Martínez and Montaner, 2006; Palazon and Delgado-Ballester, 2011). But Webster (1965) identified early on that deal proneness is complex to measure, because it is confounded by the amount of deals offered by brands. Moreover, deal-proneness will be influenced by retailer decisions. That is, if consumers tend to buy at retailers that constantly run promotions, a large proportion of their purchases will be made on-promotion. But they may not be necessarily deal-prone. Indeed, Pechtl (2004) found nearly 50% of consumers were not deal-prone and that deal-proneness had only a weak link with shopping at either an Every Day Low Price (EDLP) or Hi-Low price retailer. Furthermore, the study showed self-identified deal-prone shoppers actually bought less than 20% of their grocery items on deal.

Another stream of research has examined the extent to which households might become *more* deal-prone or promotion-sensitive over time. To this end, a number of studies have sought to identify whether a household's purchase history alters its current purchase behaviour. For example, Hardie et al. (1993) found evidence that past purchases for a brand on-deal made households slightly less likely to buy the brand again at regular price. Mela et al. (1998) found increased incidence of promotions in a category resulted in slightly less frequent purchases, with slightly more quantity bought each time. The theoretical explanation for these phenomena invoke the concept of a reference price (Mazumdar et al., 2005), which means consumers remember and are influenced by previous prices paid. If a previous purchase was made at a reduced price, it is believed that the consumer's reference price for the brand is lowered. Consumers are thought to be resistant to pay more than their reference price, in line with loss aversion (Bell and Lattin, 2000; Klapper et al., 2005). Kalyanaram and Winer (1995) support this view, concluding "reference prices have a consistent and significant impact on consumer demand" (1995, G. 163). If a shopper's reference price is lowered, logically this should induce them to seek deals, hence become more deal-prone.

Therefore, there is some evidence that deal-proneness is not necessarily just a fixed trait arising from household variables (as per Blattberg et al., 1978), but something that may be affected by brands' and retailers' promotion activities. The increasing incidence (Bogomolova et al., 2015), and prevalence of promotions for brands in packaged goods markets (Nielsen, 2009) should arguably make for a large, and growing, deal-prone segment. However - is there really a large proportion of shoppers who are quite deal-prone, that is, purposively selecting only brands that are price-promoted at the time? If there is, it implies brand loyalty should be declining, with more consumers readily swapping between any brands to take advantage of price deals. Yet multiple studies have found considerable stability in brand loyalty over time (Dawes et al., 2015; Johnson, 1984). Furthermore, whilst it seems reasonable that repetitive promotions can train consumers to buy on deal (Mela et al., 1997), several studies show little effect of leading brands regularly running temporary deals or promotions. Ehrenberg et al. (1994) found a high level of stability in an analysis of repeat-purchasing before and after promotions. Dekimpe et al. (1998) found brand sales to be predominantly stationary in the medium term in markets characterized by frequent promotion activity.

The literature therefore portrays a mixed picture on the issue of how promotions might exacerbate deal (or promotion) proneness. Some evidence shows that price promotions should erode

reference prices, heightening deal-proneness. However, several studies show little effect in terms of brand sales or repeat-purchase. To address this somewhat confusing picture, the paper presents an empirical analysis of sixteen categories of packaged consumer goods with different levels of price promotion, examining how consumers purchase brands at both promotion and regular price. The intended contribution is to establish if we can observe any empirical generalisations across a diverse set of packaged consumer goods categories, concerning how many households buy categories and brands on promotion, compared with the overall amount of promotion occurring. The time period of the analyses is one year. The study then goes on to examine how buyers of brands at regular and promotional price buy *other* brands at regular and promotional price, to establish how much, if any, partitioning there is between regular and promotional price buying. This cross-purchase analysis in turn provides a measure of how much consumers seek out promotions, compared with simply taking advantage of promotions because they are available.

## 3. Method

The data consisted of purchasing records in two different time periods for Fast Moving Consumer Goods (FMCG) categories kindly provided by Kantar Worldpanel from its UK consumer panel. The panel comprises a demographically balanced sample of over 15,000 households, who scan their grocery purchases (Kantar, 2015). We use eleven product categories from 2007, and six from 2014. One category, Fabric Care, appears in both time periods. We also use data from different time periods in an effort to produce generalisable results across categories and time. We use categories that vary greatly in average purchase frequency, as shown in Table 1. Figures for purchase frequency were not able to be extracted for three categories (the data is provided via a database-like format that occasionally precludes certain calculations).

Our choice of categories was based on data availability. The categories comprise only a sample of all consumer goods, but include food, beverage, cleaning, and personal care. Our analysis is of purchase-based metrics, so promotion incidence is measured by percentage of total sales made on deal, not weeks on deal nor depth of discount. Purchases were classified as either made at regular price, or on price-related promotion (cut price, extra volume free, buy one get one free etc.). Share of purchases and penetrations (% of households buying) were calculated for regular price and promotional price for each category and the five largest brands in each category. Penetrations were broken down into those who *only* bought at regular price, those who *only* bought at promotional price and those who bought at *both* in the year. Hence penetration at promotional price is the sum of penetration at promotional price only, and at both. We also calculated the proportion of shoppers who only bought at regular or promotional price that were one-time category buyers - to identify the extent that light category buying is related to promotion-only or regular-only buying.

Next, we conducted purchase duplication analysis (Dawes, 2016; Tanusondjaja et al., 2016) of the brands in each category, with each brand split into regular and promotion price purchases. The duplication analysis method calculates the proportion of those buying brand A that also buy other brands B, C, D and so on in a time period. The method is versatile, having been principally applied to brands (Ehrenberg, 2000), but also in other contexts such as the cross-purchasing of retailers (Dawes and Nencyz-Thiel, 2014), and buying of wine across different price tiers (Romaniuk and Dawes, 2005).

## 4. Findings

There is a great diversity in the incidence of price promotion across the categories, from 53% of purchase occasions in Fabric Care

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